

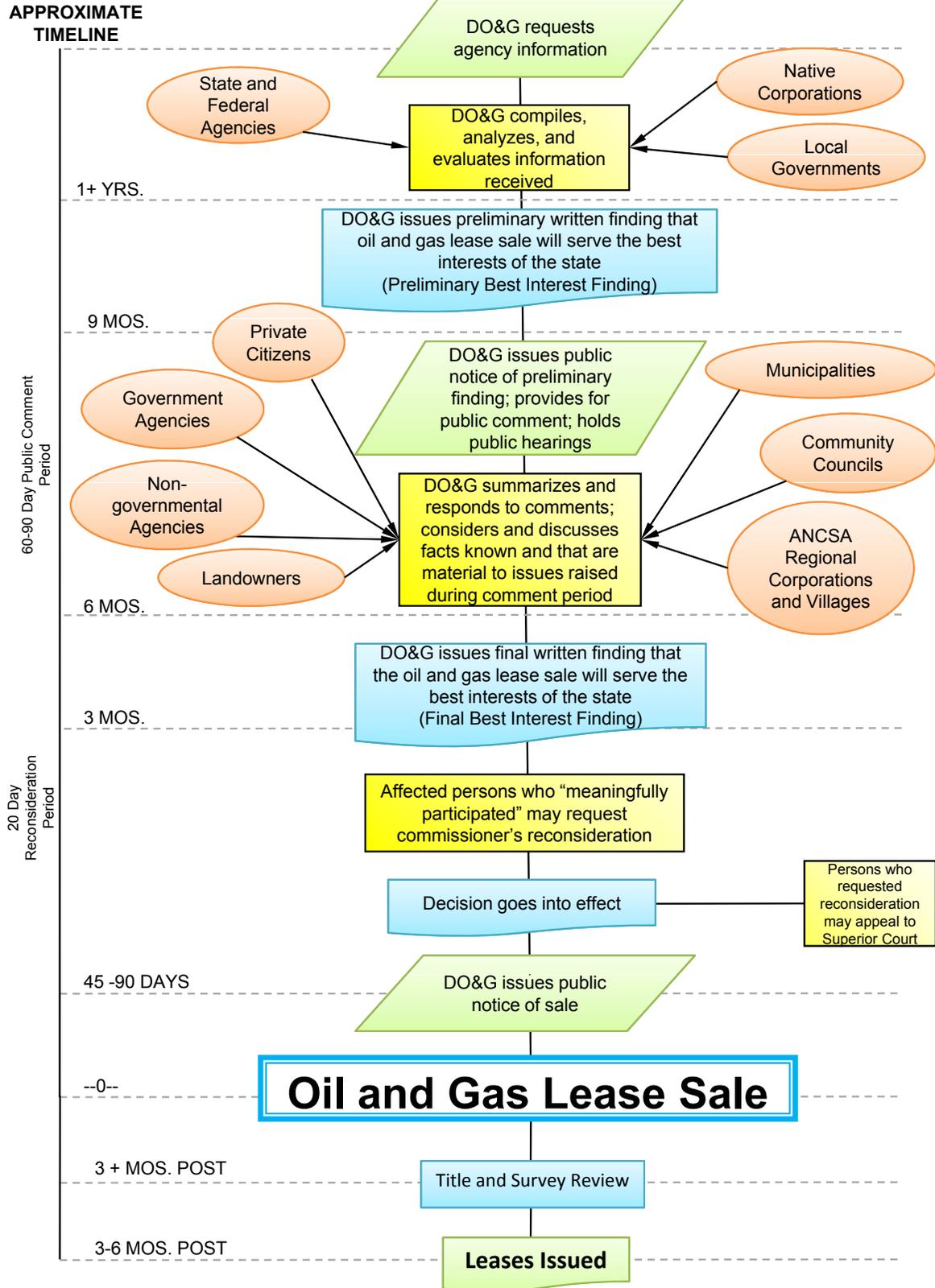
January 2011

STATE OF ALASKA
FIVE-YEAR PROGRAM
OF PROPOSED
OIL AND GAS
LEASE SALES



Alaska Department of
NATURAL
RESOURCES
DIVISION OF OIL & GAS

Lease Sale Process With New Best Interest Finding



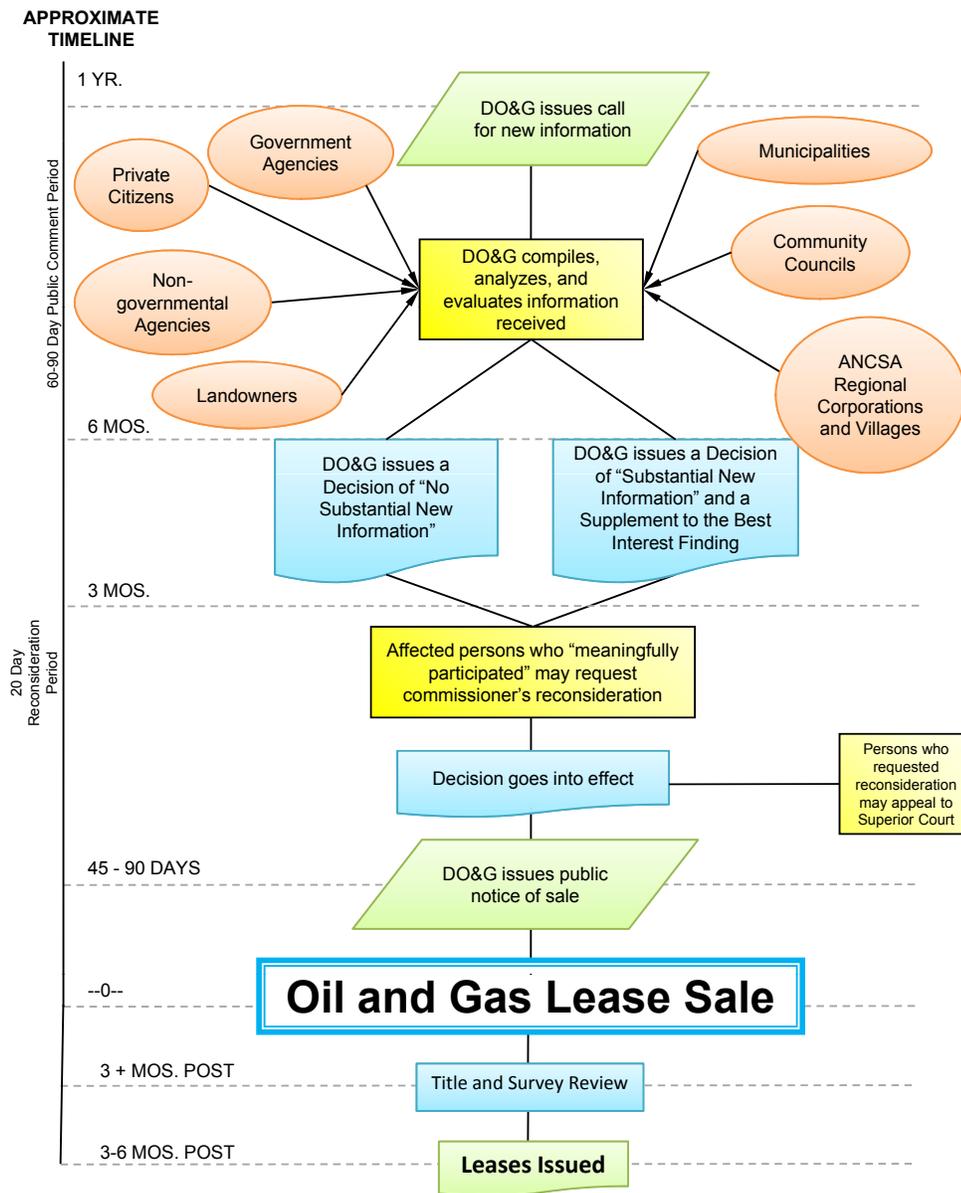
Annual Lease Sales

In the 10 years following the issuance of a best interest finding, DNR annually issues a "Call for New Information." The Call for New Information is a request for any new information that has become available since the most recent best interest finding, or supplement for that lease sale area, was issued. The Call for New Information provides opportunity for public comment for a period of not less than 30 days. Based on the information received, the commissioner determines whether it is necessary to supplement the finding. The commission-

er then either issues a supplement to the finding or a "Decision of No New Substantial Information" 90 days before the lease sale. The supplement has the status of a final written best interest finding.

Mitigation measures identified in the best interest finding are included as terms of the lease in all sales during the effective period of a finding. A new coastal management consistency review is done whenever the commissioner determines that new information or conditions suggest a proposed lease sale may no longer be consistent with ACMP standards.

Annual Lease Sale Process (between scheduled best interest findings)



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STATE OF ALASKA

FIVE-YEAR PROGRAM

OF PROPOSED

OIL AND GAS

LEASE SALES

With Reports On

Exploration Licensing

Geothermal Lease Sales

and Financial Incentives

and Tax Credit Programs

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January 2011

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Introduction

The Alaska State Legislature has found that “the people of Alaska have an interest in the development of the state’s oil and gas resources” and has specified in AS 38.05.180 that the commissioner of the Department of Natural Resources (DNR) prepare a five-year proposed oil and gas leasing program.

The Five-Year Oil and Gas Leasing Program provides a stable and predictable schedule of proposed lease sales, which helps promote the further development of Alaska’s petroleum resources. This program has become a reliable way for the petroleum industry to plan for exploration and development expenditures. Business and labor use the program to prepare for resultant economic opportunities.

The program is updated annually and is available on the Division of Oil and Gas Web site. This document presents DNR’s proposed lease sales for 2011 through 2015.

DNR has identified five areas of moderate to high potential for oil and gas development and designated these areas for leasing through competitive bid sales. This report contains a brief description of the process leading up to a lease sale, a brief description of each sale area, and the program of sales for the next five years. A list of all state oil and gas lease sales held since 1959 is listed in the “Summary of State Competitive Lease Sales” starting on page 44.

A total of 25 proposed areawide lease sales are scheduled over the next five years, with one sale scheduled annually for each of the following areas: Alaska Peninsula, Cook Inlet, Beaufort Sea, North Slope, and North Slope Foothills. Fact sheets and maps describing the proposed sale areas begin on Page 16.

Article VIII, Section 1 of the Alaska Constitution states that “[i]t is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest.” Section 2 further states that “[t]he legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the state, including land and waters for the maximum benefit of its people.”



Photo: Terry Peterson, DNR/DOG

Dall sheep by pipeline near Atigun Pass

Although the primary purpose of leasing is to enable and manage oil and gas development on state lands and realize the subsequent economic benefits¹, the leasing program itself has been a significant revenue source.

During 2010, lease tracts were sold in six sales, resulting in an estimated \$12.66 million in bonus-bid income to the state². A report on the final results of the 2009 lease sales and preliminary results of the 2010 lease sales is included in this report.

Approximately 89.2 percent of the state’s income during Fiscal Year 2010 was generated through the process that starts with the state’s oil and gas lease sales.³

In addition to oil and gas lease sales, DNR authorizes and manages the exploration licensing program for areas outside the areawide sale boundaries. A summary of the program and the status of exploration licensing areas begin on page 51.

In September 2008, the department also held its first geothermal lease sale in 22 years, generating \$3.5 million in bonus bids and \$108,000 in annual lease rental fees. The results of the sale can be found on page 54.

¹As a result of oil and gas revenue from bonus bids, lease rentals, and royalty payments (including federal shares), and settlements during Fiscal Year 2010, approximately \$ 1.4 billion was deposited into the general fund and \$0.69 billion into the Permanent Fund and School Fund.

²Preliminary results are subject to title and administrative review, and may change significantly.

³FY2010 taxes, royalty, settlement, rental, federal share, and bonus revenue as percentage of general fund unrestricted revenue.

Areawide Leasing

To achieve stability and predictability in the oil and gas leasing program, and in response to industry's request for more frequent sales, the state implemented competitive annual areawide leasing in geographic regions of the state where there is known potential for oil and gas discoveries. Under areawide leasing, the state offers all available state acreage within those regions for lease by competitive bidding at annually scheduled lease sales. Before areawide lease sales, DNR used a nomination process and wrote best interest findings for each sale, which was time-consuming and often did not meet industry's timelines for exploration.

The state's first areawide sale was conducted on the North Slope in June 1998. The Cook Inlet areawide sale was added to the schedule the following year, followed by the Beaufort Sea in 2000 and the North Slope Foothills in 2001. The Alaska Peninsula areawide sale was added in 2005.

Conducting annual areawide sales is more cost-effective because it allows companies to plan for and develop their exploration strategies and budgets years in advance, and to bid on any available acreage within an entire region. A regular schedule of areawide lease sales allows for quick turnaround of expired or terminated leases, or leases contracted out of units, for reoffer in the next annual sale. The result is more efficient exploration, leading to earlier development. It also allows smaller companies and individuals the opportunity to acquire leases in areas of less interest to the major oil companies. The state has conducted annual areawide sales each year since 1998, totaling 51 sales.¹⁾

Administrative Process

The introduction of areawide leasing brought about changes to DNR's administrative process before and following a lease sale. Previously, industry was asked to nominate specific areas to include in a lease sale, and DNR sought public comment on the proposed sale areas being considered for addition to the 5-year program. That process resulted in considerable delay between nomination of lands and the lease of those lands. Since areawide lease sales offer all available state acreage within each geographic region, there is no longer a need for industry nominations. Additionally, because the lease sale area within each region does not change, it is no longer necessary to solicit public comment on the inclusion of new lands before issuing the five-year schedule. See the "Best Interest Findings" section for an explanation of the public notice process for areawide

lease sales.

DNR has divided each lease sale area into tracts, generally consisting of nine 640-acre sections, irrespective of ownership. Many tracts in the North Slope region contain just four 640-acre sections. Because of the large number of tracts involved, the extent of the state's ownership interest in these tracts is no longer determined before a lease sale. Instead, after a lease sale, DNR verifies state title and land status only for the acreage within tracts that receive bids. A sale tract may contain land that the state cannot legally lease (i.e., land that is within an existing lease; is federal, Native, or private land; etc.). For bidding purposes, DNR assigns an estimated acreage figure to each tract, and the per acre bonus bid must reflect that assigned acreage. The actual acreage available may differ, depending on the title and land status within each tract. Acreage not owned by the state, already leased, clouded by title claims, or withdrawn will be excluded from the lease. Only those state-owned lands free and unencumbered will be included in any lease issued.

DNR publishes areawide tract maps showing generalized land status to assist potential bidders, but it is ultimately the bidder's responsibility to determine availability of the land within a tract before bidding. Current or more detailed title or land status information for a particular tract may be obtained from state land records at DNR's Public Information Center, located in Anchorage at 550 West 7th Ave., Suite 1260; phone (907) 269-8400; or the DNR Web site at <http://plats.landrecords.info/>.

DNR sends out a public notice for the competitive lease sale usually between 45 to 90 days before the sale. Sealed bids must be received by a specified date as stated in the Instructions to Bidders for the sale. Bids received are opened and read in public at the sale location, and the highest qualified bidder on the tract is awarded the lease.

Once state title to the tracts receiving bids is verified and the acreage calculated, the bonus bid amounts are adjusted and the lease is issued based on the actual acreage available. Depending upon the number of tracts receiving bids and the complexity of the land ownership, it may take several months following the lease sale before the leases are issued.

Leasing Methods

Alaska has several leasing method options designed to encourage oil and gas exploration and maximize state

revenue, as described in AS 38.05.180(f). These methods include combinations of fixed and variable bonus bids, royalty shares, and net profit shares. Minimum bids for state leases are generally \$5 or \$10 per acre. Fixed royalty rates are generally 12 1/2 percent or 16 2/3 percent, although some have been as high as 20 percent. A sliding scale royalty has also been used on occasion. Lease terms are set at five, seven, or ten years, depending on geographical location.

Several months before a scheduled sale, a geologic and economic evaluation of the sale area is prepared to de-

termine the bidding method, leasing method and the lease terms for the sale. Public notice of the sale is sent out to an extensive mailing list maintained by the Division of Oil and Gas. Leases in areawide sale areas must be offered by competitive bidding. Leases will be issued to the highest responsible qualified bidder.

¹⁾ 1998 to 2010 areawide sales: 13 were in the North Slope, 13 in Cook Inlet (added in 1999), 11 in Beaufort Sea (added in 2000), 10 in North Slope Foothills (added in 2001), and 5 in Alaska Peninsula (added in 2005).

Best Interest Findings

In 1996, to facilitate areawide leasing, the Alaska Legislature exempted oil and gas lease sales from the requirement of an annual new written finding. The law requires that a best interest finding has been done for the area within the previous ten years, and that the commissioner annually determines whether substantial new information has become available that justifies a supplement to the most recent finding.

Thus, once a finding for an area is written, DNR can conduct lease sales in that area for 10 years without having to repeat the entire best interest finding process. However, before each subsequent sale, DNR is required to call for comments from the public and determine whether a supplement to the most recent best interest finding is required.

The planning and execution of an oil and gas lease sale that requires a new best interest finding is a lengthy process that begins years before a sale. The process involves the participation of a number of state agencies, with DNR serving as the lead, along with federal agencies, Native corporations, local governments, non-governmental agencies, industry, and the public. Before disposing of an interest in state land, including an oil and gas lease sale, DNR must prepare a written finding that determines if the sale is in the best interest of the state.

When DNR prepares a preliminary written finding for an oil and gas lease sale, the department is required to consider and discuss the facts that are known at the time of preparation of the finding and that are material to the following: property descriptions, petroleum potential, fish and wildlife species and their habitats, current and projected uses, governmental powers to regulate oil and gas, reasonably foreseeable cumulative effects, lease stipulations and mitigation measures,

methods most likely to be used to transport oil or gas, reasonably foreseeable effects on municipalities and communities, bidding methods, and the basis for the finding that, on balance, leasing the area would be in the state's best interest.

A preliminary finding is made available to the public at least six months before a sale and followed by an opportunity for public comment for a period of not less than 60 days. DNR gives public notice of a preliminary written finding by publication of legal notices and display advertising in newspapers of statewide and general circulation, public service announcements, posting in conspicuous locations such as post offices and libraries, notification of parties known or likely to be affected, and other methods (such as the State of Alaska online public notice) calculated to reach affected parties.

During the public comment period, DNR may conduct workshops or hold open houses, public hearings, or public meetings in one or more of the affected communities. If the land is within the boundaries of a municipality or a regional corporation, that municipality or regional corporation may also hold a hearing, which department personnel attend. Comments received during the comment period help in developing a final finding. DNR releases the final finding, which determines whether the sale is in the state's best interests, at least 90 days before a scheduled sale.

When the proposed lease sale includes land within the Alaska coastal zone, DNR concurrently analyzes the sale for consistency with the Alaska Coastal Management Program (ACMP), including any affected district coastal management plan. The ACMP consistency analysis is published with the preliminary written finding; the final ACMP consistency determination is issued concurrently with the final finding.